Opening Statement

Representative Elijah E. Cummings (MD-7)

Subcommittee on the Federal workforce and Agency Organization hearing entitled, "Real Estate Investment Trusts (REITs): Can They Improve the Thrift Savings Plan?"

U.S. House of Representatives
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Mr. Chairman, thank you for calling this critically important hearing on the potential consequences of including a real estate investment trusts (REITs) fund in the Thrift Savings Plan (TSP).

The Federal Employees Retirement System Act of 1986 established the TSP. Today it represents an essential component of federal employees overall compensation package and retirement benefits, and is the largest-defined contribution plan in the nation.

Currently, under the TSP federal employees can invest a share of their income in five funds, which include: the Common Stock Index Investment (C) Fund, the Small Capitalization Stock Index Investment (S) Fund, the International Stock Index Investment (I) Fund, the Fixed Income Index Investment (F) Fund, and the Government Securities Investment (G) Fund. Later this year, a Lifecycle (L) fund will be added to the TSP.

The recently introduced Real Estate Investment Thrift Savings Act, H.R. 1578, would direct the Federal Retirement Thrift Investment Board to add a REIT fund option to the TSP. While research indicates that REITs from 1988-2004 outperformed all of the funds under the TSP, these returns were not substantially correlated to the performance of other funds in the TSP. Such a low level of correlation could provide federal employees with an opportunity to diversify their assets, thereby minimizing their risk from the volatility of the market.

Although REITs have enjoyed increasing popularity as an investment option in 401 (k) plans in the private sector, there is some concern that the addition of a REIT fund may alter important characteristics of the TSP that have made it such a success. To minimize risk to TSP participants and to help ensure that they have a sufficient income in retirement, Congress established the use of broad based index funds, (cross sector investing) for the TSP. However, a REIT fund would only represent the real estate market (individual sector investing).

This begs the questions: would the inclusion of such a fund set a dangerous precedent for the TSP? What would prevent other individual sectors from pushing Congress to have a stand-alone fund within the TSP in the future?

Additionally, there is the concern that further fund additions may undermine a key attractive feature of the TSP—its simplicity. As the statement of James W. Sauber, Chairman of the Employee Thrift Advisory Council points out, too many choices in investment options can lead to investor confusion, reduced participation rates, and increased administrative costs.

In considering any changes to the highly successful TSP, Congress must exercise prudence and sound judgment. We must never lose sight of the fact that the retirement benefits the federal government offers to its federal employees are a central tool we use to attract and retain the best and the brightest to serve in the service of this great nation. Nor should we forget that our decisions will resonate in the retirement security of millions of federal employees who rely on TSP.

With that in mind, I believe we should use this hearing as an opportunity for some further deliberation before moving ahead on adding single sector funds to the TSP. We should seriously take into account the Federal Retirement Thrift Investment Board's opinion that adding a REIT fund to the TSP at this time would not be wise.

It seems just as sensible that we seriously consider implementing the type of comprehensive study on the various funds the Employee Thrift Advisory Board proposed before we add a REIT fund to the TSP.

I look forward to the testimony of today's witness and yield back the balance of my time.